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SUBJECT: WITH CITI DEAL, WARKA POSITIONED TO LEAD IRAQ'S PRIVATE BANKS

¶1. (SBU) Summary: Citibank and Iraq's Al Warka Bank for Investment and Finance (Warka) announced establishment of a correspondent relationship on October 22. This is good news for Iraq as Warka is leading the way in revitalizing Iraq's private banking industry. This is also good news for the USG as it will speed up Embassy payments to service providers in Iraq. Warka is the largest private bank in Iraq with over 70,000 customers and 105 branches. It is growing at the rate of roughly five branches per month. While rapidly growing, Warka is risk adverse and reluctant to make loans to anyone not well-established in Iraq. End summary.

¶2. (SBU) Citibank and Iraq's Al Warka Bank for Investment and Finance announced on October 22 that Warka had established a correspondent account with Citibank. This correspondent account will allow Citibank to receive deposits from, make payments on behalf of, or handle other financial transactions for Warka. Warka Deputy Managing Director Mohammed Issa said "As an institution that has served Iraq since 1999, we have played a significant role in the reconstruction of the country by participating as a lead financier in many core sectors including, power, water, communication and construction."

¶3. (SBU) The GOI has a program whereby letters of credit under USD 2 million can be underwritten by private sector banks. The principal impediment to the growth of this program has been finding Western banks who are willing to confirm letters of credit (L/C's) written by small private banks in Iraq. Warka's correspondent relationship with Citibank will provide a ready partner to confirm their expanding book of L/C origination. (Note: In addition to its new relationship with Citibank, Warka had an indirect correspondent account with Wachovia Bank, and correspondent accounts with 26 other banks such as Standard Chartered, Bank Austria Creditanstalt AG, Commerzbank, and Dresdner Bank. End note.)

¶4. (SBU) The Citibank-Warka deal has been strongly supported and encouraged by the Embassy and the Baghdad PRT. The Baghdad PRT engaged with Citibank to work through several of the complications and facilitated meetings between Citibank and Warka. The Baghdad PRT assisted Warka bank in opening the first, and to date only, private bank branch in the International Zone. The Taskforce for Business Stability Operations (TFBSO) assisted Citibank with information on Iraq's banking environment and a U.S. correspondent relationship would lead to better execution of Iraqi dinar payments in support of USG war fighting and economic development objectives. Post's financial management office also coordinated efforts to bring this deal to fruition and is working with Warka to install both ATMs and a branch office in the New Embassy Compound.

Warka: 70,000 Customers Strong and Growing

¶5. (SBU) Warka, 60 percent owned by its CEO, Iraqi

businessman Saad Bunnia, is the largest private bank in Iraq and the fourth largest bank in Iraq in terms of its assets. With its core banking system and domestic debit card program, Warka provides a level of banking services new to Iraq. It is one of the ten banks that the Trade Bank of Iraq recommends for letters of credit under USD 2 million. Warka's 45 percent of total loans to total assets represent a 69 percent loan to deposit ratio.

¶6. (SBU) Warka has more than 70,000 depositors, of which 11,000 are foreign passport holders who have deposited dollars funds in Iraqi dinar (IQD) accounts in order to speculate on IQD appreciation and benefit from Iraq's relatively high interest rate (average 11.9 percent) on savings account deposits. Customers are able to open a Warka bank account on the internet. Issa notes that it follows international standard anti-money laundering and know-your-customer procedures. It conducts training in Jordan.

Risk Adverse Lending

¶7. (SBU) Warka is one of the most aggressive lenders among Iraq's private banks. As of July 2008, it had 2 percent returns on assets (ROA) and 26 percent return on equity (ROE) even while experiencing significant growth. Asset growth from July 2007 to July 2008 was 131 percent.

¶8. (SBU) According to Issa, Warka bank is a very cautious lender, "refusing to take any risks." It makes loans only to

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established customers who are well known businessmen. It does not make loans based solely on a business plan. In general, Warka charges 25 percent of the loan off the top; all loans are for one year or less. This means if a borrower obtains a one-year USD 100,000 loan, they only receive USD 75,000 from the bank. (Note: This is the way that loans are made in Iraq and so the real interest rate is much higher than the nominal interest rate. Warka's exceedingly cautious approach to lending is shared by other private banks in Iraq and is one of the major reasons that small and medium enterprise lending has not yet taken hold. End note.)

¶9. (SBU) In addition to the interest on loans, Warka generates substantial income on the fees it charges providing such services as currency exchange, electronic funds transfers, letters of credit, Western Union cash transfers, car loans (especially to government employees who can get a "letter of guarantee from their ministry"), financial transactions with GOI ministries, and letters of guarantee. Warka claims to be the largest private bidder on USD at the Central Bank of Iraq's foreign currency auctions, averaging USD 50 million per day. Its largest single-day purchase was USD 88 million, according to Issa. These foreign exchange purchases are for commercial customer transactions abroad.

Aggressively Expanding Branch Network

¶10. (SBU) Warka is aggressively expanding its branch network. In 2008, Warka was opening new branches at the rate of about five per month, according to Issa. When it opened in 1999, it had two branches. As of the end of October 2008, Warka has a total of 105 branches open in Iraq. There are branches in every province. Warka is in the process of opening branch offices at all forward operating bases (FOBs). The first to open was at Balad in September 2008. Additionally, Warka hopes to open branches in Lebanon, Jordan, Egypt and Turkey.

¶11. (SBU) Warka bank is in the process of installing an ATM network in Iraq. According to Issa, Warka is willing to install an ATM at any "secure location" and has a deal to

install 500 ATMs at Ministry of Social Affairs offices throughout Iraq. Warka Bank intends to install 5,000 point of sale (POS) machines at businesses throughout Iraq.

Comment: Good News for both Iraq and the USG

¶12. (SBU) The establishment of a correspondent relationship between a private Iraqi bank and a U.S. bank is a significant milestone in the restoration of the Iraqi banking system. Warka is playing a key role in the revitalization of Iraq's private sector and is on track to be Iraq's most widely-branched bank in Iraq. This new development comes at a time when we are pressing the Central bank of Iraq and the Ministry of Finance to move GOI trade business and letters of credit in excess of USD 4 million to private banks such as Warka. (Note: This limit is currently at USD 2 million. End note.) The Citi-Warka correspondent relationship adds important impetus to our efforts. Furthermore, the establishment of a correspondent account between Citibank and Warka is a positive development as it will allow the Embassy to accelerate its bill payments via electronic funds transfer. In the past it took an average of five days for a payment of USG funds that originated at the Embassy to reach a Warka branch office for withdrawal. A correspondent account with Citibank should reduce this processing time to two days. End comment.

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